

Welcome to Basis Points! Each month, Basis Points provides you tips and techniques that we've gleaned from a variety of sources to help better your business life. The theme of this month's issue is "Entrepreneurship". After all, who among us hasn't dreamed of starting our own venture and leading it to long-term success? Yet the challenges to do so are many. We'll show you the five traits that successful entrepreneurs share, identify the primary reasons many start-ups fail and tell you why tough times might be the best time to start a new enterprise.

Why Do Start-Up Ventures Fail?

According to the Small Business Administration, 3 out of 10 start-up firms fail within their first two years, and half of the start-ups created this year won't survive their fifth anniversary. What goes wrong at these enterprises? Astonishingly, no matter what industry or sector the new venture competes in, the reasons for failure tend to be the same:

Weak business plan – The absence of a carefully-devised, comprehensive business plan is the number-one reason new enterprises fail. Think of it as your roadmap to the future. If you don't know where you're headed, what milestones you need to pass, and how you're going to measure progress, how can you possibly get where you're going?

Absence of proper funding – According to many experts, 80% of new business problems have to do with money. It's essential to understand that a new enterprise not only needs sufficient capital to open its doors, but enough to maintain itself over time, whether to counteract unexpected difficulties (uh-oh!) or to accommodate growth (yay!).

Poor management – A weak management team will almost surely doom a new enterprise. Entrepreneurs who don't surround themselves with smart colleagues who bring fresh thinking and useful insights into such realms as economic trends, customer needs and competitive intelligence are almost certain to fail.

Sources: *The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty*, Harvard Business Press, 2000; *Small Business Administration website* (www.sba.gov)

“Entrepreneurship is the last refuge of the trouble-making individual.”

- Natalie Clifford Barney

Did You Know?

The word “entrepreneur” is derived from the 13th century French verb, “entreprendre” which means “to undertake”. Its first academic use was by the 18th century economist, Richard Cantillon, who observed that it was the bearing of risk (i.e. engaging in business without assurance of profits) that distinguished entrepreneurs from other business people. Roughly 70 years later, another economist, Jean Baptiste Say, defined an entrepreneur as someone who created value in an economy by “moving resources from low productivity to high productivity”. It was John Stuart Mill, though, who noted that entrepreneurs not only assume the risk of a business venture, but the management of that venture.



Five Things Entrepreneurs Need to Succeed

What does it take to become a successful entrepreneur? Here are five qualities shared by virtually everyone who's succeeded in launching a start-up enterprise.

1. *An idea.* Specifically, a product or solution that's somehow demonstrably better than what's otherwise available.
2. *Specialized knowledge.* Being an expert in your chosen field not only confers authority but provides competitive advantage.
3. *Unlimited energy.* In today's world, nothing comes easy. To succeed, you have to be prepared to outwork and outthrust everyone.
4. *Strong belief in self.* Whether you call it a “single-minded focus” or “relentless ambition”, entrepreneurs are strong, assertive personalities who simply refuse to accept failure.
5. *Immune to criticism.* Since entrepreneurs live on the front lines of change, they're accustomed to hearing “it can't be done”. The successful ones simply shake off the naysayers and press on.

Finding Opportunity in Adversity

Bhaskar Chakravorti leads the Innovation practice of McKinsey & Company. He also teaches entrepreneur management at the Harvard Business School. In a 2009 Harvard Business Review interview, Mr. Chakravorti observes how tough times tend to bring out the best in entrepreneurs. Examples:

- In an economic downturn, consumption of certain products declines. Invariably, this creates the need for substitutes (e.g. when new car sales decline, existing car repairs increase). Savvy entrepreneurs move quickly to exploit upon these emergent new market needs.

- Silicon and wafer technologies that were rendered unnecessary when the semiconductor industry experienced a sudden downturn were picked up by a fast-growing solar industry.

- What do Hewlett-Packard, Motorola, Revlon and Fortune magazine have in common? Each was created in the darkest days of the Great Depression, when pessimism reigned, money was tight and the likelihood of success was miniscule.

What makes entrepreneurs so special, Mr. Chakravorti notes, is their remarkable ability to find counterintuitive solutions even in the most difficult business environments.

Source: “Creative Entrepreneurship in a Downturn”, *Harvard Business School Series: Working Knowledge*, February 23, 2009